

## Message Text

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FM AMEMBASSY PARIS

TO SECSTATE WASHDC PRIORITY 6568

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PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, FR

SUBJECT: INTERNATIONAL BANK LENDING -- FRANCE

1. AS REQUESTED REFTEL, WE HAVE DISCUSSED INTERNATIONAL LENDING POLICIES WITH BANK OF FRANCE (CENTRAL BANK), BANQUE NATIONALE DE PARIS (LARGEST FRENCH BANK, WHOLLY OWNED BY FRENCH GOVERNMENT) AND BANQUE DE PARIS ET DES PAYS-BAS (LARGE PRIVATELY OWNED INVESTMENT BANK). LATER THIS WEEK WE WILL SEE OFFICIAL OF SOCIETE GENERALE (THIRD-LARGEST BANK, ALSO WHOLLY OWNED BY FRENCH GOVERNMENT). WE BELIEVE THIS SAMPLE WILL PROVIDE GOOD VIEW OF ACTIVITIES OF FRENCH BANKS, FOR BANK OF FRANCE TELLS US THAT THREE LARGE NATIONALIZED BANKS BY THEMSELVES ACCOUNT FOR MORE THAN 60 PERCENT OF INTERNATIONAL LENDING OF FRENCH BANKING SYSTEM. WE HAVE NOT RAISED MATTER WITH OFFICIALS OF PARIS BRANCHES OF U.S. BANKS, BECAUSE AS WE UNDERSTAND IT, THEIR OPERATIONS ARE LARGELY TRIBUTARY TO LONDON. THIS TELEGRAM SUMMARIZES OUR INTERVIEWS WITH THREE BANKS NAMED ABOVE. WE HAVE ASSURED ALL PERSONS INTERVIEWED THAT THEIR STATEMENTS TO LIMITED OFFICIAL USE

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US WILL BE HELD IN CONFIDENCE.

2. BANK OF FRANCE (LEFORT, DIRECTOR GENERAL OF FOREIGN DEPARTMENT).

A. IN GENERAL, FRENCH BANKS HAVE TENDED TO BE PRUDENT IN THEIR APPROACH TO INTERNATIONAL LENDING. THIS INNATE PRUDENCE HAS BEEN REINFORCED BY ADVICE OF BANK OF FRANCE, WHICH HAS CONSISTENTLY ALERTED FRENCH BANKS TO DANGERS OF OVER-EXTENSION. BANK OF FRANCE BELIEVES THAT DIFFICULTIES ENCOUNTERED BY FOREIGN BANKS (E.G., HERSTATT, FRANKLIN NATIONAL) AMPLY JUSTIFY ITS WARNINGS. AS A RESULT OF THESE HIGHLY PUBLICIZED DIFFICULTIES, FRENCH BANKS HAVE TENDED TO CUT BACK ON THEIR INTERNATIONAL LENDING OPERATIONS, AND BANK OF FRANCE EXPECTS THIS TENDENCY TO STRENGTHEN IN 1975.

B. FRENCH BANKS HAVE TENDED TO KEEP THEIR INTERNATIONAL LENDING ACTIVITIES SEPARATE FROM DOMESTIC OPERATIONS. IN THE RECENT PAST, THIS TENDENCY HAS BEEN REINFORCED BY EXCHANGE CONTROL REGULATIONS, WHICH FORBID FRENCH BANKS TO MAKE FRANC LOANS TO NON-RESIDENTS AND WHICH REQUIRE THEM TO BALANCE THEIR FOREIGN EXCHANGE POSITION (CLAIMS AND COMMITMENTS) AT THE END OF EACH BUSINESS DAY.

C. CREDIT RESTRICTIONS IMPOSED BY FRENCH MONETARY AUTHORITIES HAVE HAD ONE IMPORTANT EFFECT IN RECENT PAST ON NATURE OF INTERNATIONAL LENDING BY FRENCH BANKS. WHEN QUANTITATIVE CEILINGS ON LENDING PREVENTED BANKS FROM SATISFYING FULLY DEMANDS OF DOMESTIC CUSTOMERS FOR CREDIT, THEY OFFERED THOSE CUSTOMERS THEIR SERVICES IN OBTAINING CREDITS ON EURO-CURRENCY MARKET (FOREIGN EXCHANGE PROCEEDS THEN BEING CONVERTED INTO FRANCS). AS A RESULT, VOLUME OF BORROWING AND RELENDING OF FOREIGN EXCHANGE BY FRENCH BANKS TO RESIDENTS OF FRANCE HAS GREATLY EXPANDED: FROM ABOUT \$200 MILLION AT BEGINNING OF 1973 TO ABOUT \$1 BILLION IN BEGINNING OF 1974 AND NOW TO ABOUT \$2 BILLION.

3. BANQUE NATIONALE DE PARIS (HECKER, HEAD OF FOREIGN LIMITED OFFICIAL USE

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DEPARTMENT).

A. IN 1974 BNP ADOPTED A RESTRICTIVE AND SELECTIVE POLICY ON INTERNATIONAL LENDING. THEY WERE CONCERNED ABOUT UNCERTAINTIES TWO OR THREE YEARS HENCE AND SERIOUS DANGER OF DETERIORATION IN EURO-CURRENCY MARKET. THEIR GUIDING PRINCIPLE WAS TO ENGAGE ONLY IN OPERATIONS THAT MET FOLLOWING CONDITIONS: (1) ACCOMMODATE THEIR GOOD

CUSTOMERS OR SIGNIFICANTLY IMPROVE THEIR STANDING WITH THE CUSTOMER; (2) PROVIDE SATISFACTORY RETURN; AND (3) BNP SHOULD BE LEAD MANAGER (CHEF DE FILE) OF THE OPERATION (MANAGEMENT COMMISSIONS ARE OFTENTIMES ONLY ELEMENT THAT MAKES OPERATION PROFITABLE). POLICY WILL BE LITTLE CHANGED IN 1975, IF ANYTHING MORE SEVERE.

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B. BNP EXPECTS TOTAL VOLUME OF NEW LENDING IN 1975 WILL BE ABOUT THE SAME AS IN 1974, CERTAINLY NO GREATER. ADMITTEDLY 1974 WAS AN ACTIVE YEAR. IT REQUIRES GREAT EFFORT, HOWEVER, TO KEEP THIS ACTIVITY UNDER CONTROL. FOR EXAMPLE, BNP HANDLED FOUR TRANSACTIONS IN LAST WEEK OF JANUARY TOTALING MORE THAN \$100 MILLION.

C. BANK HAS NO GUIDELINES FOR ALLOCATING RESOURCES BETWEEN DOMESTIC AND EXTERNAL ACTIVITIES. BECAUSE OF LIMITATIONS IMPOSED BY EXCHANGE CONTROLS, THESE MUST BE KEPT SEPARATE. IN 1974 CREDIT RESTRICTIONS IMPOSED BY FRENCH MONETARY AUTHORITIES DID STIMULATE EXTENSION OF

CREDITS IN FOREIGN EXCHANGE TO A NUMBER OF BNP'S FRENCH CUSTOMERS.

D. EQUITY CAPITAL RATIO IS AN ELEMENT TO WHICH BNP MANAGEMENT ATTACHES IMPORTANCE. THEY ARE CONSCIOUS THAT MARKET ALSO WATCHES THIS FACTOR CLOSELY. THEY HAVE BEEN SEEKING TO INCREASE CAPITAL RESOURCES IN FOREIGN EXCHANGE, AND TO THAT END HAVE RECENTLY FLOATED TWO LIMITED OFFICIAL USE

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BOND ISSUES ON EURO-BOND MARKET.

E. BNP MANAGEMENT IS VERY SENSITIVE TO PROBLEM OF DEPOSIT AND LOAN STRUCTURE, AND HAS FOLLOWED CONSERVATIVE POLICY IN THIS REGARD. IN GENERAL, SHORT-TERM RESOURCES ARE LENT SHORT, WITH SHORT-TO-LONG INTERMEDIATION NEVER EXCEEDING 5 OR 10 PERCENT OF TOTAL AVAILABLE SHORT-TERM RESOURCES. THIS POLICY WAS ESTABLISHED LONG BEFORE 1974, AND HAS BEEN RIGOROUSLY ADHERED TO. DIFFICULTIES OF HERSTATT AND FRANKLIN NATIONAL HAVE CONFIRMED TO BNP MANAGEMENT THE WISDOM OF THIS POLICY, WHICH THEY WILL APPLY STRICTLY IN 1975.

F. BNP HAS LIKEWISE SOUGHT TO AVOID CONCENTRATION OF DEPOSITS. LARGE DEPOSITS ARE ACCEPTED ONLY FOR LONGER MATURITIES.

G. BNP DOES NOT USE OVER-ALL COUNTRY EXPOSURE LIMITS. IT FEELS THAT BECAUSE OF ITS WIDE RANGE OF ACTIVITIES COMMERCIAL TRANSACTIONS, BRANCHES ABROAD, FINANCIAL OPERATIONS AND SERVICES) IT WOULD HAVE DIFFICULTY IN ENFORCING SUCH LIMITS. ITS PREFERENCE IS TO FIX RATINGS FOR VARIOUS COUNTRIES ALONG LINES OF SYSTEM USED BY COFACE (FRENCH EXPORT CREDIT INSURANCE AGENCY). SUCH RATINGS SERVE AS A GUIDE TO BANK'S OFFICERS IN ALL DEPARTMENTS AS TO WHEN THEY CAN BE LIBERAL AND WHEN THEY SHOULD BE PRUDENT. IN ANY CASE FINAL DECISIONS ON LENDING ARE MADE BY A COMMITTEE OF OFFICERS CONVERSANT WITH ALL FACTORS, INCLUDING CREDITWORTHINESS OF BORROWING COUNTRY. RATINGS ARE DETERMINED IN LIGHT OF STANDARD ECONOMIC CRITERIA, WITH EMPHASIS ON EVOLUTION OF COUNTRY'S ECONOMIC POLICIES AND SITUATION. GUARANTEES FROM OPEC OR INDUSTRIAL COUNTRIES AND INTERNATIONAL FINANCIAL SOLIDARITY ARRANGEMENTS WOULD CERTAINLY ENHANCE CREDIT STANDING OF BORROWERS IN EYES OF BNP (AND SIMULTANEOUSLY OTHER LENDERS AS WELL). HOWEVER, BNP WOULD GIVE MORE WEIGHT TO NATIONAL EFFORTS PROMISING TO IMPROVE COUNTRY'S ECONOMIC AND FINANCIAL SITUATION THAN TO ITS POSSIBLE RIGHT OF RECOURSE TO INTERNATIONAL SOLIDARITY ARRANGEMENTS.

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H. QUESTION OF WHAT COUNTRIES MIGHT FACE DIFFICULTIES IN 1975 IS SENSITIVE ONE. ASIDE FROM HIGHLY PUBLICIZED CASES, THERE COULD BE CITED CERTAIN AFRICAN COUNTRIES. FIRST, THERE ARE COUNTRIES LIKE IVORY COAST, WHICH, DESPITE PROMISING ECONOMIC PROSPECTS, HAVE BEEN BORROWING TOO HEAVILY AND HAVE RUN UP UNDULY LARGE DEBT BURDEN. SECOND, THERE ARE COUNTRIES LIKE ZAIRE, MADAGASCAR AND RHODESIA, WHERE POLITICAL AND SOCIAL EVOLUTION INSPIRES LESS AND LESS CONFIDENCE. ON THE OTHER SIDE, COULD BE CITED COUNTRIES WHOSE STATUS HAD IMPROVED. FRANCE FALLS INTO THIS CATEGORY. WHILE FRENCH GOVERNMENT WOULD PROBABLY NOT BE IN MARKET IN 1975, FRENCH COMPANIES WOULD BE, AND THEY SHOULD BE ABLE TO RAISE FUNDS IN AMOUNTS DESIRED AND ON SATISFACTORY TERMS.

I. AN IMPORTANT ELEMENT IN OUTLOOK FOR INTERNATIONAL BANK LENDING IN 1975 AND BEYOND WAS MOVE TOWARDS STRENGTHENING DISCIPLINE ON BANKS. IN WAKE OF DIFFICULTIES ENCOUNTERED BY SOME INSTITUTIONS, MANY BANKS HAD REINFORCED THEIR INTERNAL CONTROLS, AND BANK SUPER-

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VISORY AUTHORITIES IN A NUMBER OF COUNTRIES HAD LIKEWISE  
TIGHTENED THEIR SURVEILLANCE OF INTERNATIONAL OPERATIONS.  
FINALLY, LARGE INTERNATIONAL BANKS HAD REACHED UNDER-  
STANDINGS AMONG THEMSELVES FOR CROSS VERIFICATION OF  
ACTIVITIES THROUGH EXCHANGE OF INFORMATION AND RECIP-  
ROCAL EXAMINATION. THESE HEALTHY DEVELOPMENTS SHOULD  
HELP BOLSTER CONFIDENCE IN INTERNATIONAL CREDIT MARKETS.

4. BANQUE DE PARIS ET DES PAYS-BAS (HAAS, IN CHARGE OF  
INTERNATIONAL FINANCIAL ACTIVITIES).

A. PARIBAS HAS ALWAYS BEEN EXCEEDINGLY CAUTIOUS RE  
INTERNATIONAL LENDING OPERATIONS. THEIR ORIGINAL CON-  
CERN WAS TO AVOID THE RISKS INHERENT IN BORROWING SHORT  
AND LENDING LONG. MORE RECENTLY, GROWING CONCENTRA-  
TION OF EURO-CURRENCY CLAIMS IN HANDS OF OIL-  
EXPORTING COUNTRIES HAD REINFORCED THEIR CAUTION,  
BECAUSE OF WHAT THEY FEEL TO BE "UNPREDICTABILITY"  
ABOUT BEHAVIOR OF THOSE COUNTRIES.

B. INTERNATIONAL LENDING ACTIVITIES ARE IN ENTIRELY  
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SEPARATE COMPARTMENT FROM DOMESTIC. CONSEQUENTLY,  
NEITHER POLICIES OF MONETARY AUTHORITIES NOR INTERNAL  
BANK GUIDELINES FOR ALLOCATING CREDIT AFFECT INTERNATION-  
AL OPERATIONS. LIKEWISE CAPITAL BASE OF PARIBAS IMPOSES  
NO LIMITATION ON FOREIGN LENDING. CONTROLLING FACTOR IS  
ABILITY OF BANK TO BORROW IN EURO-CURRENCY MARKET THE  
FUNDS IT WANTS TO LEND, AND SO FAR IT HAS BEEN ABLE TO  
DO SO. OF COURSE, CAPITAL BASE BEARS SOME RELATIONSHIP  
TO BORROWING CAPACITY, BUT THIS IS NOT A LIMITING  
FACTOR.

C. PARIBAS OPERATIONS ARE A 9-DIGIT FIGURE, "CONSID-  
ERABLY MORE THAN \$100 MILLION." ALTHOUGH MANAGEMENT HAS  
NOT YET TAKEN A FIRM DECISION ON VOLUME OF 1975  
OPERATIONS, PRESENT THINKING IS THAT THEY WOULD NOT BE  
MORE THAN 10 PERCENT ABOVE 1974.

D. PARIBAS HAS NO SYSTEMATIC RULES ON WHAT OPERATIONS IT ACCEPTS. THEY TAKE WHAT THEY CAN'T AVOID, WITH TOP MANAGEMENT DECIDING EACH CASE ON ITS MERITS. PRIMARY CONCERN IS TO SATISFY GOOD CUSTOMERS RATHER THAN GET NEW CUSTOMERS. BECAUSE THESE OPERATIONS ARE IN DOLLARS, THEY LIKE TO OPERATE IN ASSOCIATION WITH U.S. BANKS, THEIR PRINCIPAL PARTNER BEING BANK OF AMERICA.

E. PARIBAS DOES USE COUNTRY EXPOSURE LIMITS, BUT THEY ARE DETERMINED LARGELY ON AN AD HOC BASIS RATHER THAN BY ANY KIND OF SYSTEMATIC CALCULATIONS OR RATIONAL CRITERIA. FOR EXAMPLE, THEIR EXPOSURE IN ZAIRE IS \$20 MILLION, AND IF NEW OPERATIONS RELATING TO ZAIRE WERE PROPOSED TO THEM, THEY WOULD SAY THEY WERE NOT INTERESTED BECAUSE OF GENERALLY SKEPTICAL VIEWS ABOUT ZAIRE'S OUTLOOK.

F. PARIBAS DID NOT PLAY LARGE ROLE IN FACILITATING EURO-CURRENCY BORROWINGS BY RESIDENTS OF FRANCE IN 1974, AND DOES NOT EXPECT TO DO SO IN 1975.  
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